

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07  
CEA-01 DOTE-00 HUD-02 CEQ-01 SOE-02 DODE-00  
EPA-04 IO-14 L-03 NSF-02 PM-05 OES-07 DOE-11  
INT-05 AGRE-00 ACDA-12 /161 W  
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R 311351Z JAN 78  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC 6231

UNCLAS LAGOS 01263

E.O. 11652: N/A  
TAGS: EINV, EIND, EFIN, NI  
SUBJECT: UPDATE OF INVESTMENT CLIMATE STATEMENT

REF: 77 STATE 244738

SUBJECT STATEMENT KEYED TO GUIDELINES IN REFTEL.

A. GENERAL ATTITUDES. THE TWO MAIN LAPB AFFECTING INCOMING FOREIGN INVESTMENT ARE 1968 COMPANIES DECREE AND 1977 NIGERIAN ENTERPRISE PROMOTION DECREE (COPIES FORWARDED UNDER SEPARATE COVER). IN EFFECT THEY ENSURE THAT ALL FOREIGN INVESTMENT IS GOVERNMENT APPROVED AND FORMS EQUITY JOINT VENTURES WITH NIGERIAN CITIZENS. WITHIN THESE CONSTRAINTS, FMG WELCOMES FOREIGN INVESTMENT. NONETHELESS THE NIGERIAN BUSINESS CLIMATE IS NOT IDEAL BECAUSE OF CONFLICTING PRIORITYS AMONG MINISTRIES, CONSTANT ISSUANCE OF DECREES CHANGING INVESTMENT TERMS OF REFERENCE, HARASSMENT BY LOW-LEVEL BUREAUCRATS, FMG SLOWNESS IN PROCESSING PAPERWORK, AND POOR PHYSICAL ENVIRONMENT. IT SHOULD BE NOTED, HOWEVER, THAT FMG IS TRYING TO IMPROVE BUSINESS CLIMATE BY WORKING TO REMOVE SPECIFIC INVESTMENT IMPEDIMENTS. ON-GOING US-NIGERIA, ECONOMIC TALKS FORUV MADLBEEN CREATED TO IDENTIFY INVEST-  
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MENT ROADBLOCKS (E.G. LACK OF MULTI-ENTRY VISAS AND EXPATRIATE QUOTAS).

B. ECONOMIC FACTORS. NIGERIA'S 1977 GNP OF DOLS 28 BILLION IS THE LARGE CLIN BLACK AFRICA. PETROLEI REVENUES OF APPROXIMATELY DOLS 10 BILLION ACCOUNT FOC 93 PER CENT OF EXPORT EARNINGS, OVER 80 PER CENT OF FEDERAL GOVERNMENT REVENUES AND WITH THE DECLINE OF

AGRICULTURAL EXPORT CROP PRODUCTION HAS BEEN MAIN RESOURCE BASE TO FUEL NIGERIA'S DOLS 41 BILLION 1975-80 CAPITAL DEVELOPMENT PLAN. HOWEVER, OIL REVENUES HAVE PLATEUED DUE TO NIGERIAN GOVERNMENT PROFIT AND PRICING POLICIES AS WELL AS FLUCTUATIONS IN WORLDWIDE DEMAND. IMPORT COSTS HAVE INCREASED. NIGERIA, GOVERNMENT HAS REACTED BY HOLDING DOWN ITS CURRENT AND CAPITAL BUDGETARY SPENDING, SEEKING EURODOLLAR LOANS AND WILL BE RELYING MORE ON FOREIGN INVESTMENT TO HELP NIGERIA'S PREDOMINANTLY SUBSISTENCE AGRICULTURAL AND OIL EXTRACTIVE ECONOMY DEVELOP INDUSTRIAL AND MODERN AGRICULTURAL SECTORS. NIGERIA HAS MADE SIGNIFICANT ADVANCES IN BUILDING UP PHYSICAL INFRASTRUCTURE INCLUDING ROADS, PORTS, AND AIRPORTS ALTHOUGH PROGRESS IN MODERNIZING COUNTRY'S COMMUNICATION NET HAS BEEN SPOTTY AND LITTLE HAS BEEN DONE TO IMPROVE NIGERIA'S INEFFICIENT RAILROADS. DEVELOPMENT OF HUMAN AND ORGANIZATIONAL INFRASTRUCTURE HAS LAGGED. SKILLED WORKERS, TECHNICIANS AND MIDDLE-LEVEL MANAGEMENT ARE IN SHORT SUPPLY ALTHOUGH GOVERNMENT HAS BEGUN PROGRAMS TO HELP ALLEVIATE PROBLEM. LACK OF DATA COLLECTION CAPABILITY AND INEFFECTIVE INTER-MINISTERIAL COOPERATION HINDERS GOVERNMENT PLANNING.

C. FINANCIAL INCENTIVES AND DISINCENTIVES. LIMITATIONS ON REPATRIATING FOREIGN EXCHANGE EARNED FROM INVESTMENTS HERE SPELLED OUT IN 77 LAGOS 12052. FIVE YEAR TAX HOLIDAY GIVEN TO NEW AGRO-INDUSTRIES, BUT THESE ARE NEGOTIATED WITH FMG ON CASE BY CASE BASIS. LIKELY THAT FMG WOULD ERECT TARIFF OR NON-TARIFF BARRIERS TO ENCOURAGE INVESTMENT IN LOCAL PRODUCTION  
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FACILITIES.

D. DEVELOPMENT POLICY. ALTHOUGH FMG OFFERS DOMESTIC FINANCING INCENTIVES FOR INVESTMENT IN AGRICULTURE AND HOUSING, THERE IS NO COHERENT SECTORAL OR GEOGRAPHIC DEVELOPMENT POLICY TO GUIDE FOREIGN INVESTMENT. THERE ARE NO EXPORT MARKET PRODUCTION QUOTAS AND ONLY LOCAL MARKET PRODUCTION QUOTA REQUIREMENT IS FOR VEHICLE AND VEHICULAR SPARE PARTS MANUFACTURE/ASSEMBLY (25 PER CENT), BUT FMG IS NOT ADVERSE PHILOSOPHICALLY TO ADDITIONAL REQUIREMENTS. POLICIES RELATING TO CONTINUED INVESTMENT EXPENDITURE, PATENT LAWS, ROYALTY POLICY AND/OR OTHER REQUIREMENTS AFFECTING TECHNOLOGY TRANSFER FOUND IN GP LAGOS 12052.

E. LABOR FACTORS. LARGE SCALE MIGRATION OF AGRICULTURAL LABOR CONTINUES TO SWELL POOL OF UNSKILLED LABOR IN URBAN AREAS. SKILLED LABOR REMAINS SCARCE, AND ALTHOUGH GOVERNMENT HAS BEGUN SEVERAL TRAINING PROGRAMS TO CLOSE GAP, SHORTAGES IN SKILLED LABOR WILL REMAIN PROBLEM THROUGH 1978 AND BEYOND. THERE ARE NO QUOTAS OR OTHER OFFICIAL DIRECTIVES CONCERNING HIRING NIGERIAN LABOR HOWEVER, THERE ARE RIGOROUSLY ENFORCED QUOTAS ON EXPATRIATE LABOR WHICH ARE NEGOTIATED INDIVIDUALLY WITH FEDERAL MINISTRY OF INTERNAL AFFAIRS. WAGES ARE LOW BY U.S.

STANDARDS (E.G. UNSKILLED CONSTRUCTION LABOR EARN DOLS 95 A MONTH) BUT PRODUCTIVITY IS ONLY ABOUT ONE-THIRD THAT OF INDUSTRIALIZED COUNTRIES. COMPANIES OFTEN ALSO PROVIDE THEIR PERSONNEL WITH HOUSING, TRANSPORTATION AND MEDICAL ALLOWANCES. OCCASIONAL WILDCAT STRIKES HAVE MARRED LABOR-MANAGEMENT RELATIONS BUT USUALLY QUICK GOVERNMENT INTERVENTION HAS KEPT WORK STOPPAGES SHORT. OUTLOOK FOR 1978 IS THAT WAGES WILL BE RELATIVELY STABLE BECAUSE OF FMG'S ANTI-INFLATION POLICY. FMG ALSO PLANS TO REORGANIZE NIGERIA'S LABOR MOVEMENT IN 1978 BY CONSOLIDATING THE COUNTRY'S 1000 UNIONS/4 UMBRELLA ORGANIZATIONS INTO 43 UNIONS/1 ORGANIZATION.

F. OWNERSHIP POLICY AND INVESTMENT DISPUTES. ALL PRIVATE INVESTMENT IN NIGERIA IS SUBJECT TO THE 1977 NIGERIAN  
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ENTERPRISE PROMOTION DECREE WHICH PROVIDES THAT ALL VENTURES MUST BE AT LEAST 40 PER CENT OWNED BY NIGERIAN NATIONALS. (DECREE HAS THREE SCHEDULES: SCHEDULE I ACTIVITIES ARE 100 PER CENT NIGERIAN OWNED; SCHEDULE II - 60 PER CENT; SCHEDULE III - 40 PER CENT). EXPATRIATE MANAGEMENT AND/OR TECHNICAL SERVICES AGREEMENTS CAN BE NEGOTIATED BY MUST HAVE FEDERAL MINISTRY FINANCE APPROVAL. CURRENT INDIGENIZATION DECREE HAS CAUSED SOME INVESTMENT DIVXINOS ALTHOUGH MOST EXPATRIATE FIRMS WILL PROBABLY DECIDE TO ABIDE BY THE NEW INVESTMENT RULES BECAUSE OF HIGH PROFITS. THOSE THAT HAVE NOT ACCEPTED THE NEW RULES HAVE SOLD THEIR HOLDINGS OR ARE STILL NEGOTIATING WITH THE GOVERNMENT.

G. STATUS OF OPIC PROGRAMS. THERE IS AN OPIC INVESTMENT INSURANCE PROGRAM WITH NIGERIA, BUT IT HAS STALLED BECAUSE OF FMG'S SLOWNESS IN PROCESSING INVESTMENT INSURANCE APPROVAL APPLICATIONS. OPIC HAS SUGGESTED CHANGES TO SPEED UP THE APPROVAL PROCESS WHICH FMG IS STILL STUDYING.

H. CHANGES IN INVESTMENT POLICIES. THE BASIC NIGERIAN FOREIGN INVESTMENT POLICY AS EXPRESSED IN THE 1977 ENTERPRISE PROMOTION DECREE IS EXPECTED TO REMAIN UNCHANGED AT LEAST THROUGH THE CHANGEOVER TO CIVILIAN RULE IN OCTOBER 1979. NONETHELESS, THERE MAY BE SPECIFIC DECREES ISSUED BY THE CURRENT MILITARY REGIME IN THE INTERIM WHICH HAVE IMPACT ON FOREIGN INVESTMENT. THOUGHTS ON THE CONTENT OF THESE DECREES AND OR THE ATTITUDE OF NEW CIVILIAN GOVERNMENT TOWARD FOREIGN INVESTMENT ARE SPECULATIVE, BUT MANY EXPERIENCED OBSERVERS BELIEVE NEW GOVERNMENT WILL TAKE MORE "LAISSEZ-FAIRE" STANCE ON PRIVATE INVESTMENT.

I. STATISTICAL INFORMATION.

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U.S. INVSTMENT (BOOK VALUE) DOLS 348 MILLION (COMMERCE DEPT.)

U.K. INVESTMENT DOLS 800 MILLION

WEST GERMAN INVESTMENT DOLS 200 MILLION.

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## Message Attributes

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**Channel Indicators:** n/a  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014